

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Valley Financial Group, Ltd. (1st State Bank)

Point of Contact:	James R. Milroy	RSSD: (For Bank Holding Companies)	3223293
UST Sequence Number:	1310	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	1,300,000	FDIC Certificate Number: (For Depository Institutions)	57626
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	N/A	City:	Saginaw
Date Repaid ¹ :	N/A	State:	Michigan

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☐ Increase lending or reduce lending less than otherwise would have occurred.

☐ To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).

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☐ Increase securities purchased (ABS, MBS, etc.).

☐ Make other investments.

☐ Increase reserves for non-performing assets.

☐ Reduce borrowings.

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☐ Increase charge-offs.

☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

Increased business loan originations were offset by decreased residential mortgage loans held in portfolio (due to refinancing into fixed rate loans sold in secondary market) and declines in personal lending.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The company's original intent in participating in the CPP was to bolster its equity ratio to allow for continued growth in the organization as well as to provide protection against a threatening economic environment. During 2010, the bank did continue to grow its business loan portfolio, however, declines in residential mortgages held in portfolio and declining personal lending kept total loans on the balance sheet stagnant. The company still perceives continued opportunities for growth in its market. Participation in the CPP allowed the company to delay the need to go to the public to raise capital for future growth given the challenging environment that exists to complete such a action.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.